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January 9, 1997 DOCKET FILE COPY ORIGINAL

Mr. William F. Caton
Secretary
Federal Communications Commission
Room 222
1919 M Street, NW
Washington, DC 20554

Re: Federal-State Joint Board on
Universal Service
CC Docket No. 96-45

Dear Mr. Caton:

Please find enclosed for filing in the above-captioned proceeding the original and four copies of the reply comments of Rock Hill Telephone Company, Fort Mill Telephone Company, and Lancaster Telephone Company.

Please stamp the additional copy enclosed for this purpose and return it in the self-addressed, stamped envelope provided.

Thank you for your assistance in this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read 'E.L. Barnes'.

E.L. Barnes
Executive Vice President

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Before the
Federal Communications Commission
Washington, DC 20554

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JUN 10 1997

In the Matter of)

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Federal-State Joint Board
on Universal Service)

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CC Docket No. 96-45

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REPLY COMMENTS OF
ROCK HILL TELEPHONE CO.,
FORT MILL TELEPHONE CO., AND LANCASTER TELEPHONE CO.

I. INTRODUCTION

Rock Hill Telephone Company, Fort Mill Telephone Company, and Lancaster Telephone Company (collectively Rock Hill) hereby reply to comments submitted to the Federal Communications Commission (FCC or Commission) in response to the Recommended Decision of the Federal-State Joint Board.¹

The Rock Hill companies are rural local exchange carriers (LECs) as defined in the Telecommunications Act of 1996² which provide service to approximately 75,000 access lines in portions of York, Lancaster, and Chester counties in the South Carolina piedmont region. As incumbent LECs, they have made the pursuit of universal service in their territories a vital part of their business plans, and are therefore extremely interested in this proceeding. The Recommended Decision necessarily addresses a wide range of issues related to the provision of universal service.

¹Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Recommended Decision, FCC 96J-3 (November 8, 1996). (Recommended Decision)

²Section 153(37).

Rock Hill commends the Joint Board for its thoughtful consideration of these difficult and often-conflicting challenges. Rock Hill's reply comments will focus on one particular issue: the application of the Joint Board's proposed rural company transition to those companies that may convert from "average schedules" to "costs" during the transition period. Rock Hill's silence on other issues should not be interpreted as consent -- in general, Rock Hill supports the comments filed by its trade association representatives, the United States Telephone Association (USTA) and the Rural Telephone Coalition.

II. THE COMMISSION MUST ADOPT RULES THAT WILL NOT PENALIZE AVERAGE SCHEDULE COMPANIES WHICH CONVERT TO COSTS IN 1997 OR IN THE FUTURE

Rock Hill serves a significant number of rural subscribers, and is currently an "average schedule" company, a member of the National Exchange Carrier Association (NECA) traffic sensitive and common line pools. As such, it does not currently receive Universal Service Fund (USF) support, nor does it receive dial equipment minutes (DEM) weighting support based on Rock Hill-specific cost data (although the average schedule development process includes a DEM weighting factor).

The Joint Board properly decided that a transition mechanism was necessary to convert rural LECs from today's USF, DEM weighting, and long-term support (LTS) programs to the new universal service program implemented in response to the Telecommunications Act of 1996.³ However, the Joint Board

³Recommended Decision at para. 356.

recommended that rural LECs' level of high-cost support for the three years beginning in 1998, as well as the subsequent three-year transition period, be based on "the support they received from the high cost assistance, DEM weighting, and LTS mechanisms for a twelve month period prior to 1998."⁴

Under the current system, USF payments received in 1997 are based on 1995 costs. As several commenters point out, this proposal will be detrimental to rural LECs in two ways. First, it would not recognize perfectly justifiable embedded costs which were incurred by companies in 1996 and thereafter with the assumption that those costs would be recovered by the existing USF system. Rock Hill agrees with GVNW that, "[e]stablishing 1998 forward looking revenue streams based on historical costs which occurred in 1995 without consideration to costs incurred in 1996 is unfair to incumbent carriers and violates the terms of the Act which requires that support be 'sufficient and predictable.'"⁵

Second, as pointed out by Cathey, Hutton & Associates and USTA, the Joint Board proposal to freeze USF support at a level based on 1995 embedded costs would preclude average schedule companies which may be in the process of converting to cost now from receiving support for embedded costs they have incurred and which would have been recoverable under the current USF system.⁶

⁴Id.

⁵GVNW Comments at page 15.

⁶Cathey, Hutton & Associates Comments at page 10; USTA Comments at page 29.

Currently, companies electing to convert to cost in 1997 would base their decision, and new company-specific tariffs, on cost studies which examine their latest available actual embedded costs -- i.e. those incurred in 1996.

Rock Hill is in exactly this position. Rock Hill's deliberation over the question of converting to "cost" includes many factors, including the efficiency of the company, the cost to serve its customers, and the desirability of filing a tariff based on its own company-specific costs. Changing access markets, and the desire to reduce interstate access rates to a more competitive level, is one of the factors that has driven Rock Hill to consider filing company-specific cost-based tariffs. This decision should not be unduly influenced by whether or not USF support will be available for embedded costs that have always been recognized by the current USF program. This uncertainty has not been a factor for other rural LECs that have converted to cost and begun receiving USF payments based on their actual embedded costs. The only thing that differentiates such companies from Rock Hill and other average schedule LECs who may wish to convert to cost in the future is a factor completely outside either group's control -- the timing and content of the Joint Board's recommendation on this issue.

Rock Hill believes that LECs which convert from average schedule to cost in 1997 must receive support on an annualized basis during the transition period beginning January 1, 1998. That is, their support during the transition should be calculated as if


those companies converted to "cost" status on January 1, 1997, and received an entire year of USF support. By the same logic, average schedule LECs which convert to cost any time during the full six year transition period should receive support for the remainder of that period based upon their actual embedded costs. This is absolutely vital to ensure that all rural LECs, average schedule and cost, are able to avail themselves of the Joint Board's transition process equally, regardless of whether or if a conversion from average schedule to cost status is made.

III. CONCLUSION

For the above-stated reasons, Rock Hill believes the FCC should act upon the Joint Board's Recommended Decision in a manner consistent with the suggestions contained herein.

Respectfully submitted,

**ROCK HILL TELEPHONE COMPANY
FORT MILL TELEPHONE COMPANY, AND
LANCASTER TELEPHONE COMPANY**

By: 
E.L. Barnes
Executive Vice President

January 9, 1997

CERTIFICATE OF SERVICE

I, Karen Dark, hereby certify that a copy of the reply comments of Rock Hill Telephone Company, Fort Mill Telephone Company, and Lancaster Telephone Company was sent on this, the 9th day of January, 1997, by first class United States mail, postage prepaid, to those listed on the attached sheets.


Karen Dark

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